

## 7. MAKING WORK PAY

*I think the objective of welfare reform should be to break the cycle of dependency in a way that promotes responsibility, work, and parenthood. I believe that our objective for all Americans should be to make sure that every family can succeed at home and at work, not to make people choose.*

President Clinton  
February 1996

America's welfare system is broken. It does not serve the taxpayers or those trapped in it. And it undermines the values of work and family. We must replace it. At the same time, Congress' failure to raise the minimum wage has hurt millions of hardworking families.

For three years, the Administration has worked aggressively to fix specific parts of the welfare system, while pursuing comprehensive reform. In 1993, the President's economic program gave tax cuts to 15 million working families through the Earned Income Tax Credit, which rewards work over welfare. In 1994, the Federal Government collected a record \$10 billion in child support (see Chart 7-1). A year later, the President signed an Executive Order to make the Federal Government a model employer for collecting child support. In July 1995, the President ordered that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher Food Stamp benefits when their welfare checks are cut.

The Administration's actions—combined with the falling unemployment rates that a strong economy has generated—are having an impact. Since their peak in March 1994, welfare caseloads have fallen from 14.4 million to 12.9 million, or 10 percent (see Chart 7-2).

The Administration has given 37 States the freedom to test ways to move people from welfare to work and protect children. The President's welfare plan also would dramatically increase State options to structure the system, but retain basic standards for

helping the poor to live and become self-sufficient.

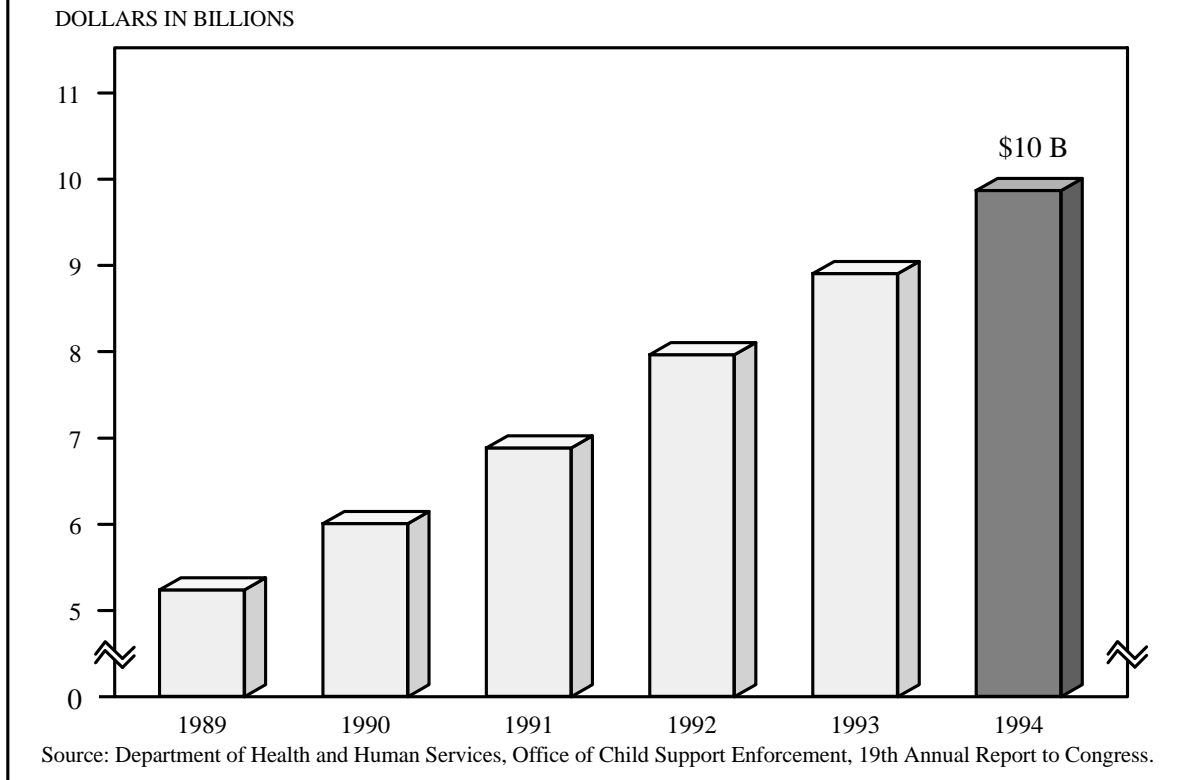
Through State welfare experiments, 9.9 million recipients across the Nation are in households in which adults are being required to work, take more responsibility for their children, sign a personal responsibility contract, or earn a paycheck from a business that uses money otherwise spent on Food Stamps and welfare benefits to subsidize private sector jobs. These States are doing their part to promote real reform that reflects the basic values that Americans share: work, responsibility, and family.

Now, however, Congress needs to do its part and work with the Administration on bipartisan legislation that honors those same values by requiring work, demanding responsibility, protecting children, and providing adequate resources to get the job done right.

In 1994, the President sent Congress a dramatic welfare reform plan to: time-limit welfare benefits; establish tough work requirements and provide child care for welfare recipients; impose tough child support enforcement measures on non-custodial parents; increase State flexibility to run public assistance programs; and protect children. That proposal triggered many others—in Congress and from the Nation's governors.

The President is determined to keep working with Congress to enact a bipartisan welfare reform bill. In this budget, the President proposes a revised plan to replace the current welfare system with one that requires work and provides child care so people can leave

**Chart 7-1. THE ADMINISTRATION'S CHILD SUPPORT COLLECTIONS CONTINUE TO GROW**



welfare for work. This new plan saves about \$40 billion over seven years while promoting sweeping work-based reform and protecting children.

### WELFARE REFORM

To succeed, welfare reform must focus on moving those who can work to independence through: tough work requirements; child care; incentives to reward States for placing people in jobs; a continued financial commitment by States to reform; a flexible program structure that can respond quickly to fluctuations in welfare caseloads and adapt to local needs; a strong national nutritional safety net; and protection for children even if their parents lose assistance.

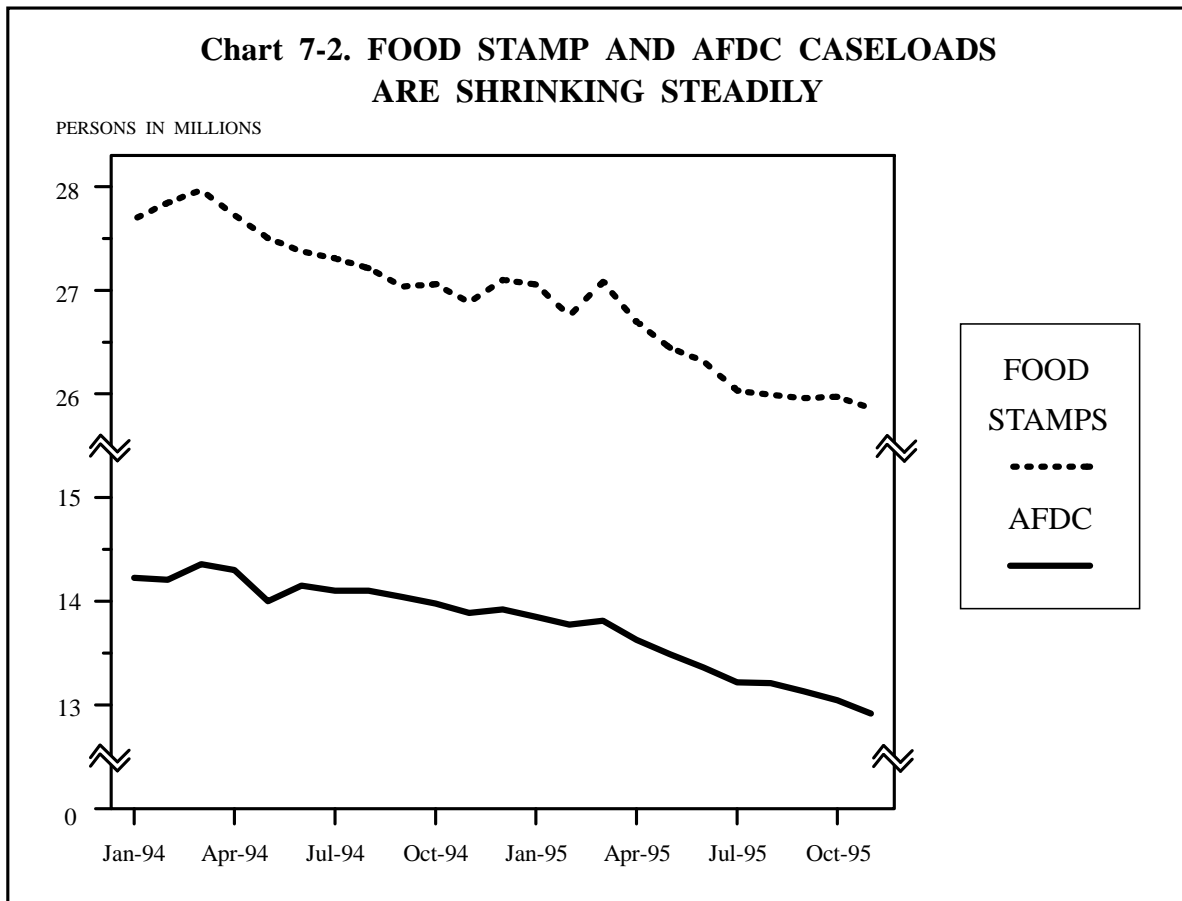
#### Moving People from Welfare to Work

Welfare reform is mainly about work. The President's plan would repeal Aid to Families with Dependent Children (AFDC) and create

a new, time-limited, conditional entitlement to cash assistance. As soon as they join the rolls, beneficiaries would have to develop and sign a personal responsibility contract with their welfare office. Within two years, able-bodied parents would have to work or lose their benefits—and after five years, they no longer would get cash benefits.

***Providing Child Care to Reward Work Over Welfare:*** Child care is vital to moving people off welfare and helping them stay off. Many people stay on welfare because when they work, the cost of child care leaves them worse off. The budget proposes significantly more funding for child care to help low-income parents get the skills to hold a job or look for one. Child care funds also would help parents avoid welfare in the first place.

***Ensuring Protection During Economic Downturns:*** In a recession, State revenues fall as welfare caseloads rise because more jobless families seek public assistance. Without



a funding structure that can adjust to caseload changes, a recession could render many States unable to keep paying welfare benefits and still meet the tough work requirements of any real reform. The President believes strongly in maintaining a flexible funding structure that adjusts to changing economic circumstances.

***Keeping a Stake in Successful Reform:***

States must maintain their commitment to move people from welfare to work. Without it, some States may withdraw their support for programs that move people to work and drastically cut benefits in a “race to the bottom.” States should be held accountable for making welfare reform a success. The President’s proposal requires a sustained State financial contribution. The proposal also recognizes that State welfare bureaucracies need a positive incentive to focus on the central goal of moving people from welfare to work. Thus, the President proposes \$800 million in performance bonuses to reward States that

achieve the best results in moving people from welfare to work.

**Requiring Parental Responsibility**

To end welfare as we know it, we must encourage responsible behavior. The President’s proposal sends a strong message to the next generation that they should not have children until they can care for them.

***Strengthening Child Support Enforcement:*** In his 1994 welfare plan, the President proposed sweeping changes to strengthen child support enforcement. These included: revoking driver and professional licenses for parents who refuse to pay child support; improving interstate laws to find such parents; and strengthening the tools to establish paternity so that both parents take full responsibility for their children.

***Reducing Teen Pregnancy and Stabilizing Families:*** In his State of the Union address, the President launched a national cam-

paign to cut teen pregnancy by a third over the next 10 years. The budget proposes \$30 million to address the problem and support grass-roots community efforts. A National Clearinghouse on Adolescent Pregnancy would provide information, data, and technical assistance to teen pregnancy prevention programs, including education about abstinence.

Teens who become parents often need support and guidance, especially to meet their children's emotional and material needs. Under the President's proposal, minor parents would have to live in an adult-supervised environment as a condition of receiving temporary employment assistance. To help them become self-sufficient, minor parents also would have to participate in education or job training activities.

### **Protecting Children**

Welfare reform should not punish children.

***Maintaining our National Commitment to Abused and Neglected Children:*** In 1993, the Administration secured legislation to provide close to \$1 billion for the new Family Preservation and Support program. The law recognized that child abuse and neglect are serious, growing problems. Recently, reported child maltreatment and the need for out-of-home placements have both risen sharply—about 2,000 children die each year due to abuse and neglect.

Some congressional welfare bills would cut child protection programs, leading to more uninvestigated reports of mistreatment, more children left in unsafe homes, and more children languishing while they await adoption and permanent homes. Congress should reject such cuts and, instead, maintain a flexible system that can respond over time to changes in children's need for protection.

***Maintaining our National Nutrition Safety Net:*** Every day, the national nutrition safety net protects millions of children, working families, and elderly. The Food Stamp program reaches one in 10 Americans every month—over 13 million children and two million elderly people. About 26 million children receive lunches supported by the Agriculture Department each school day. Another 2.5 mil-

lion children a day participate in the child and adult care feeding program.

Throughout their history, Food Stamps and Child Nutrition have produced significant, measurable improvements in the nutrition of children and families. The programs work because of: national standards on nutrition, eligibility, and benefits; funding structures that ensure that the programs respond to changing needs caused by economic fluctuation; and Federal oversight that helps ensure their integrity. The Food Stamp program helps to ensure that low-income families and individuals have access to the resources they need to maintain an adequate diet. The President's plan maintains the national nutrition safety net for Food Stamps and Child Nutrition, enabling them to respond to the changing and disparate circumstances of families and children.

Under the President's plan, the Food Stamp program continues to index basic benefits with inflation; counts all energy assistance as income; and imposes a new work requirement that makes adults aged 18–50 with no dependents ineligible for Food Stamps after six months of each year unless they work 20 hours a week or participate in workfare or training (eligibility continues if a State does not supply a training or workfare slot). Tough new integrity measures crack down on fraudulent Food Stamp trafficking and waste. In addition, the plan gives States unprecedented flexibility to run the Food Stamp program. It better targets food subsidies for Family Day Care homes and makes other minor changes in Child Nutrition programs.

***Protecting Children Whose Parents Reach the Time Limit:*** As we have said, welfare reform should not punish children. Even after a family's cash benefits end, the President's plan calls for vouchers for goods and services so that children continue to receive essential items, such as clothing and housing.

***Protecting Health Coverage for Poor Families:*** Health care is an important part of the strategy to move poor people from welfare to work. The President proposes to retain the Federal guarantee of coverage under Medicaid—which provides health care to low-income Americans—for those who receive cash

assistance. In addition, his plan does not restrict Medicaid for documented immigrants.

### **Reforming Supplemental Security Income (SSI)**

The SSI program provides critical financial support for the neediest aged, blind, and people with disabilities. The budget supports key reforms to ensure that SSI continues to reach those most in need.

The budget tightens eligibility standards for childhood disability benefits. It would deny benefits to adults who are on SSI due to substance abuse. It proposes improved SSI and Social Security Disability program integrity measures, such as continuing disability reviews. It would give the Social Security Administration new tools to collect SSI overpayments from individuals no longer on the SSI rolls. Finally, it proposes to allow a family to use any large, retroactive SSI benefit to establish a dedicated savings account for a child with disabilities, with funds in the account usable only for education and training, special equipment, housing modifications, or therapy and rehabilitation.

### **Making Equitable Changes in Benefits for Legal Immigrants**

The President believes that legal immigrants should have the opportunity, and bear the responsibility, to be productive members of society. He also believes they should be able to tap the social safety net when the need arises.

The budget proposes to hold sponsors who bring immigrants into the country legally responsible for their financial well-being. Specifically, it would count (or “deem”) sponsors’ income when determining whether immigrants are eligible for SSI, Food Stamps, or AFDC—until immigrants become citizens. These rules, however, would not apply to those who suffer a disabling impairment after entering the country, the very elderly who have lived in the country for at least five years, those who have worked for over five years, or veterans and their families. The budget preserves Medicaid eligibility for low-income, eligible legal immigrants. It also creates a consistent definition of eligibility for documented aliens for AFDC, SSI, and Medicaid,

and lets States apply this definition to their own State-funded programs.

### **THE EARNED INCOME TAX CREDIT (EITC)**

To move people from welfare to work, the Government must do more than set time limits and work requirements in welfare programs. It must ensure that those who work can support their children. As a wage supplement, the EITC helps low-income parents do that.

This tax credit has long enjoyed broad, bipartisan support as a vital tool for making work pay. Congress created it 20 years ago, and Presidents of both parties have pushed successfully to expand it. The most recent was President Clinton, who teamed up with Congress in 1993 to reward work for 15 million families.

The budget maintains these gains for hard-working, low-income families. In addition, the President proposes to allow States, on a test basis, to make advance EITC payments to low-income working families—that is, payments during the tax year, rather than a lump sum at the end—to learn whether this would help move more families from welfare to work. Currently, employers can include a portion of a family’s expected EITC in an employee’s paycheck, but few of them do. The Administration also seeks to cut program costs by improving compliance and targeting. (For more details on the compliance and targeting measures, see Chapter 12.)

### **THE MINIMUM WAGE**

In real, inflation-adjusted dollars, the value of the minimum wage is nearing its lowest level in 40 years. The President proposes to raise the minimum wage from \$4.25 to \$5.15 an hour over two years, in two steps of 45 cents each.

A higher minimum wage would truly make work pay. A 90-cent rise would mean over \$1,800 a year in higher earnings for full-time, full-year workers at the minimum level who now make less than \$9,000 a year. With the proposed increase, nearly 10 million working Americans would get an immediate

pay raise. Another nine million low-wage workers with wages up to a dollar above the new minimum also could benefit indirectly, presuming that their paychecks rise as well.

The stereotype of minimum-wage teenagers in comfortable circumstances who work only for “extras” is sadly inaccurate. In truth, minimum-wage paychecks mostly go for expenses like rent and baby food. The average minimum wage worker brings home half of his or her family’s earnings.

Nevertheless, about a quarter of workers who would get a pay raise with this increase are teenagers. These teenagers’ jobs are their introduction to the world of work. Over three-fifths of all workers have been paid at the minimum wage at some time during their working lives.

Generally, economists agree that while a minimum wage increase of 90 cents an hour would raise the living standards of millions of low-wage workers, it would cost the economy few, if any, jobs.